

SUBMITTAL TO THE BOARD OF SUPERVISORS  
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA



ITEM  
2.4  
(ID # 5854)

**MEETING DATE:**

Tuesday, December 5, 2017

**FROM :** AUDITOR CONTROLLER:

**SUBJECT:** AUDITOR-CONTROLLER: Internal Audit Report 2017-014: Riverside County Transportation and Land Management Agency, Countywide Contract Amendments, Change Orders, and Competitive Bidding Audit, All Districts. [\$0]

**RECOMMENDED MOTION:** That the Board of Supervisors:

1. Receive and file Internal Audit Report 2017-014: Riverside County Transportation and Land Management Agency, Countywide Contract Amendments, Change Orders, and Competitive Bidding Audit

**ACTION:** Consent

  
Paul Angulo, Director of Auditor Controller 11/15/2017

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**MINUTES OF THE BOARD OF SUPERVISORS**

On motion of Supervisor Jeffries, seconded by Supervisor Perez and duly carried by unanimous vote, IT WAS ORDERED that the above matter is received and filed as recommended.

Ayes: Jeffries, Tavaglione, Washington, Perez and Ashley  
Nays: None  
Absent: None  
Date: December 5, 2017  
xc: Auditor

Kecia Harper-Ihem  
Clerk of the Board

By:   
Deputy

**SUBMITTAL TO THE BOARD OF SUPERVISORS COUNTY OF RIVERSIDE,  
STATE OF CALIFORNIA**

<b>FINANCIAL DATA</b>	<b>Current Fiscal Year:</b>	<b>Next Fiscal Year:</b>	<b>Total Cost:</b>	<b>Ongoing Cost</b>
<b>COST</b>	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
<b>NET COUNTY COST</b>	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
<b>SOURCE OF FUNDS: N/A</b>			<b>Budget Adjustment:</b>	No
			<b>For Fiscal Year:</b>	n/a

**C.E.O. RECOMMENDATION:** Approve

**BACKGROUND:**

**Summary**

In accordance with Board of Supervisors Resolution 83-338, we completed an audit of the Riverside County Transportation and Land Management Agency to provide management and the Board of Supervisors with an independent assessment of internal controls over contract amendments, change orders, and competitive bidding audit.

Based upon the results of our audit, we identified areas for improvement of internal controls; specifically, the approval of change orders. We determined Riverside County Transportation and Land Management Agency's internal controls over amendments, competitive bidding and other areas of change orders provide reasonable assurance that its objectives relating to these areas will be achieved. Reasonable assurance recognizes internal controls have inherent limitations, including cost, mistakes, and intentional efforts to bypass internal controls.

We will follow-up in one year to determine if actions were taken to correct the findings noted.

**Impact on Residents and Businesses**

Provide an assessment of internal controls over the audited areas.

**SUPPLEMENTAL:**

**Additional Fiscal Information**

Not applicable

**ATTACHMENT A.**

Riverside County Auditor-Controller - Internal Audit Report 2017-014: Riverside County Transportation and Land Management Agency, Countywide Contract Amendments, Change Orders, and Competitive Bidding Audit.

  
 Stephanie Pasi 11/27/2017

**Internal Audit Report 2017-014**

**Riverside County Transportation and Land  
Management Agency, Countywide Contract  
Amendments, Change Orders, and Competitive  
Bidding Audit**

**Report Date: November 9, 2017**



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**AO** | AUDITOR  
CONTROLLER  
COUNTY OF RIVERSIDE

Paul Angulo, CPA, MA  
County Auditor-Controller

Frankie Ezzat, MPA  
Assistant Auditor-Controller

November 9, 2017

Juan Perez  
Director  
Riverside County Transportation and Land Management Agency  
4080 Lemon Street, 8<sup>th</sup> Floor  
Riverside, CA 92501

**Subject: Internal Audit Report 2017-014: Riverside County Transportation and Land Management Agency, Countywide Contract Amendments, Change Orders, and Competitive Bidding Audit**

Dear Mr. Perez:

In accordance with Board of Supervisors Resolution 83-338, we completed an audit of the Riverside County Transportation and Land Management Agency to provide management and the Board of Supervisors with an independent assessment of internal controls over contract amendments, change orders, and competitive bidding audit.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain sufficient, reliable, relevant and useful information to provide reasonable assurance that our objective as described above is achieved. An internal audit includes the systematic analysis of information to evaluate and improve the effectiveness of internal controls. We believe this audit provides a reasonable basis for our conclusion.

Internal controls are processes designed to provide management reasonable assurance of achieving efficiency of operations, compliance with laws and regulations, and reliability of financial and non-financial information. Management is responsible for establishing and maintaining adequate internal controls. Our responsibility is to evaluate the internal controls.

Based upon the results of our audit, we identified areas for improvement of internal controls; specifically, the approval of change orders. We determined Riverside County Transportation and Land Management Agency's internal controls over amendments, competitive bidding, and other areas of change orders provide reasonable assurance that its objectives relating to these areas will be achieved. Reasonable assurance recognizes internal controls have inherent limitations, including cost, mistakes, and intentional efforts to bypass internal controls.

As requested, in accordance with paragraph III.C of the Board of Supervisors Resolution 83-338, management responded to the reported condition and recommendation contained in the report.

**Internal Audit Report 2017-014: Riverside County Transportation and Land Management Agency,  
Countywide Contract Amendments, Change Orders, and Competitive Bidding Audit**

Management's response is included in the report. We will follow-up to verify that management implemented the corrective actions.

We thank the Riverside County Transportation and Land Management Agency management and staff for their cooperation. Their assistance contributed significantly to the successful completion of this audit.

Paul Angulo, CPA, MA  
Riverside County Auditor-Controller



By: René Casillas, CPA, CRMA  
Interim Chief Internal Auditor

cc: Board of Supervisors  
Executive Office  
Grand Jury

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## Executive Summary

### Overview

Riverside County Transportation and Land Management Agency (TLMA) primary function is to oversee development within the unincorporated county and operation and improvement of 2,100 miles of county roads covering the 7,300 square miles of the County of Riverside. TLMA consists of five departments, Administration, Building & Safety, Code Enforcement, Planning, and Transportation.

The Administration Department contains TLMA's Purchasing unit (Purchasing), which is responsible for all aspects of contract amendments, change orders, and competitive bidding processes. Purchasing consists of a Procurement Contract Specialist I, a Buyer I, two accounting assistants, and an administrative services assistant. The Procurement Contract Specialist I is contracted from the Riverside County Purchasing and Fleet Services Department (Central Purchasing). TLMA typically contracts for construction type purchases, engineering services, environmental services, real estate research, computers, office supplies, furniture, and vehicles.

### Audit Objective

Our objective is to provide management and the Board of Supervisors with an independent assessment about the adequacy and effectiveness of internal controls over contract amendments, change orders, and the competitive bidding process. Internal controls are processes designed to provide management reasonable assurance of achieving efficiency of operations, compliance with laws and regulations, and reliability of financial and non-financial information.

### Audit Conclusion

Based upon the results of our audit, we identified areas for improvement of internal controls; specifically, the approval of change orders. We determined Riverside County Transportation and Land Management Agency's internal controls over amendments, competitive bidding, and other areas of change orders provide reasonable assurance that its objectives relating to these areas will be achieved. Reasonable assurance recognizes internal controls have inherent limitations, including cost, mistakes, and intentional efforts to bypass internal controls.

## Change Orders

### Background

Changes to the contract or scope of work are accomplished through written instruments known as amendments and change orders. The county or vendor may order extra work, delete work, or change terms of the contract through the use of amendments and change orders.

County contracts contain change clauses in the general conditions that permit contracting officers to make agreed upon changes, within the general scope of the contract. These are accomplished by issuing written change orders. A change order is work that is added to or deleted from the original scope of work of the contract, which is agreed to by the county, contractor, and architect/engineer.

### Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over change order processing.

### Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed policies, applicable laws, codes, regulations, and ordinances
- Conducted interviews and performed walk-throughs with office personnel
- Utilized Riverside County's financial system queries to identify cost charged to each contract
- Selected samples of contracts to perform detailed testing of change orders

### Finding 1: Approving Change Orders

Change orders were not consistently approved by an authorized approver. Our review of 43 contracts disclosed 12 contained an average of 13 change orders that were not approved by the Board of Supervisors, Purchasing Agent, or the Director of Transportation (as authorized by Riverside County Resolution No. 2011-015 and pursuant to California Streets and Highways Code Section 2006.1). It was believed that the Assistant Director of Transportation had the authority to sign change orders. However, Resolution No. 2011-015 specifically assigns the approval authority to the Director of Transportation. Due to the high visibility and general interest of the public concerning major construction projects, improperly approving change orders could result in possible litigation if project cost is questioned by the public and it is discovered that portions of the project were not properly approved.



### **Recommendation 1**

During the audit period, the Assistant Director of Transportation was appointed Director of Transportation. This should solve the issue of proper approval of change orders. However, due to the high visibility and the public's interest in transportation projects, the department should ensure that all future special delegations of authority approved by the Board of Supervisors are followed.

### **Management's Response**

**“Concur.** The change orders in question were approved by the Assistant Director who was acting in the capacity of Director of Transportation during the audit period for purposes of overseeing the day-to-day operations of the Department (including submitting construction contracts to the Board of Supervisors for their review and approval). She had signed all Form 11s for the above mentioned 12 contracts that were approved by the Board of Supervisors. Since then, the Assistant Director has been appointed as Transportation director by the Board of Supervisors and TLMA Agency Director. Having the Assistant Director's approval on change orders allowed these construction projects to proceed expeditiously to the benefit of and in the best interest of the public.

The cumulative dollar amount of change orders was a very small percentage of the project total costs. Some of the projects cumulative change orders were as small as 0.10% of the projects costs. The total contract amount on the 10 projects reviewed that contained change orders was \$217,161,170. The total amount of the change orders identified in the finding is \$1,997,588, for these 10 contracts, for a cumulative change order rate of less than 1% of the total contract amount. The remaining two contracts had amendments that were approved by the Board of Supervisors.

Going forward, the Transportation Department is working with County Counsel to draft an amendment to BOS resolution 2011-015 for consideration by the Board of Supervisors. BOS Resolution 2011-015 grants change order authority to the Director of Transportation. We will propose to amend Resolution 2011-015 to delegate signature authority to the Director of Transportation “or Deputy Director” as authorized signers for the approval of change orders, in the interest of processing change orders expeditiously.

The Transportation Department is working with County Counsel to amend the language in Resolution 2011-015 that delegates signature authority to the Director of Transportation “or Deputy Director” as authorized signers for the approval of change orders.”

Actual/estimated Date of Corrective Action: **January 31, 2018**